Alberta

2015-16 **Third Quarter**
Fiscal Update and Economic Statement

February 2016

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NOTE: Amounts presented in tables may not add to totals due to rounding.

Alberta

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2015–16 THIRD QUARTER FISCAL UPDATE

Method of Consolidation

The *2015-16 Third Quarter Fiscal Update and Economic Statement* reports on the same scope, using the same method of consolidation, as presented in *Budget 2015*, introduced October 27, 2015. This is the same scope and consolidation approach used in the Consolidated Financial Statements in the Government of Alberta Annual Report.

The results of all government departments, funds and agencies, except those designated as government business enterprises, are consolidated on a line-by-line basis. Revenue and expense transactions between consolidated entities have been eliminated.

The accounts of provincial agencies designated as government business enterprises are included on the modified equity basis, computed in accordance with International Financial Reporting Standards applicable to those entities.

Basis of Financial Reporting

The consolidated fiscal summary reports revenue (including gains from disposal of tangible capital assets), expense (including amortization, loss on disposal and write-down of tangible capital assets), and surplus / (deficit).

Revenue and expense are recorded using the accrual basis of accounting. Cash received for goods or services which have not been provided by period end is recorded as unearned revenue.

Transfers received for capital purposes, and donated capital assets, are recorded as "deferred capital contributions" when the cash or asset is received, and recognized in revenue over the related asset's useful life (in effect matching the asset's amortization expense).

Expense includes the province's cash payments towards the unfunded pension liabilities, and the non-cash change in unfunded pension liabilities.

Debt servicing costs include interest payable, and amortization of issue costs and discounts / premiums on debt issues.

Compliance with Legislation

The *Fiscal Planning and Transparency Act* (FPTA) requires reporting to the public on the accuracy of the Fiscal Plan on or before February 28th. The FPTA gives the President of Treasury Board and Minister of Finance discretion over the form of the report.

The *2015-16 Third Quarter Fiscal Update and Economic Statement* includes comparisons between the October *Budget 2015* estimates and third quarter forecasts for revenue and expense (including details and categories of each); the surplus / (deficit); the Contingency Account balance and cash adjustments; a summary balance sheet; the Capital Plan; and financing (borrowing) requirements. An updated Alberta economic outlook, with associated assumptions, is also provided.

No quarterly estimates were published in *Budget 2015*, so they were developed for the nine months ending December 31, 2015 to enable comparing actual results for revenue, expense and the Capital Plan, and what would have been estimated.

Under the FPTA, operating expense increases, excluding those for dedicated revenue-operating expense, collective bargaining or other remuneration settlements, First Nations settlements, or increases funded by reserves of school boards, post-secondary institutions or Alberta Health Services, are limited to 1% of budgeted operating expense.

The forecast provided in this report is in compliance with the requirements of the FPTA.

2015–16 THIRD QUARTER FISCAL UPDATE

Fiscal Plan Highlights

Crown debt as defined by the *Fiscal Planning and Transparency Act* (liabilities for capital projects and borrowing for the pre-1992 Teachers' Pension Plan) is forecast at $18.9 billion on March 31, 2016, unchanged from the October Budget (*Budget 2015*), and 5.7% of estimated nominal 2015 Alberta GDP.

A deficit of $6.3 billion is forecast for 2015-16, $197 million higher than estimated in *Budget 2015*.

Revenue is forecast to be $43.1 billion, $660 million lower than estimated in *Budget 2015*.

- Resource revenue has decreased by a net $294 million to $2.5 billion, due to lower forecast oil prices partly offset by the impact on royalties of a lower Canadian-US dollar exchange rate. Bitumen royalties are down $403 million, while crude oil royalties are $74 million higher mainly from the lower exchange rate.
- The West Texas Intermediate oil price forecast has decreased from budget by US$5 to $45 per barrel. Fiscal year-to-date (February 16), prices have averaged $46.50. The light-heavy differential forecast has declined by US$0.20 to $13.40. The natural gas Alberta Reference Price forecast has decreased 30 cents, to Cdn$2.30 per gigajoule, and the exchange rate forecast has decreased by 2 cents, to 76US¢/Cdn$.
- Personal income tax revenue has decreased $762 million from budget, to $11.3 billion. This reflects the impact on incomes and employment of the drop in oil prices, partly offset by a positive $98 million prior-years' adjustment (higher 2014 assessment data mean 2013-14 and 2014-15 revenue was under-reported).
- The corporate income tax revenue forecast has increased $227 million from *Budget 2015*, to $5 billion, due mainly to higher-than-expected cash instalment payments received from corporations.
- Total revenue from other sources is forecast to be a net $169 million higher than the *Budget 2015* estimate. Increases of $251 million in one-time funding under the federal Fiscal Stabilization program, $49 million in increased fuel and tobacco tax revenue, $44 million in higher external investment management fees charged primarily to pension plans, and a net of $11 million in other revenue, are partly offset by lower investment income of $52 million mainly from poor equity market returns in 2015 and so far in 2016, a $75 million reduction in Alberta Treasury Branch net income and a net $59 million reduction in forecast premiums, fees and licences revenue.

Expense is forecast at $49.4 billion, $463 million lower than estimated in *Budget 2015*.

- Operating expense is forecast at $43.2 billion, $35 million higher. Increases of $270 million are primarily for K-12 enrolment growth, physician compensation, Alberta Health Services (AHS) operations funded from AHS reserves, and external investment management fees funded by increased investment income. These are partly offset by reductions of $235 million, primarily related to lower agriculture income support from better crop yields, suspended Access to the Future Fund grants, removing $25 million provided to Alberta Enterprise Corporation for investing purposes from expense, and lower costs of marketing lower-priced crude oil.
- Disaster assistance is forecast to be $647 million, with $395 million devoted to forest fire-fighting costs. The total is $182 million lower than budget, due mainly to the impact of improved crop yields on agriculture indemnities and to re-profiling of 2013 Alberta flood assistance.
- Capital grants of $1.9 billion are $113 million lower primarily from private sector partner delays on carbon capture and storage projects.
- Pension provisions (the year-over-year change in estimated liabilities) are $202 million lower than budget, due to reversing the budgeted slight decrease to the discount rate used to calculate pre-1992 plan liabilities (primarily the Teachers' Pension Plan), and to strong prior-year investment returns reducing the unamortized losses in the valuation.

The Contingency Account balance on March 31, 2016 is now forecast to be $3.9 billion, $580 million higher than the *Budget 2015* estimate. Main changes include: a net $1.2 billion increase in cash adjustments, from AHS funding their increased spending from their reserves, differences between accrued energy royalties and personal income tax revenue and actual cash payments received, fewer student loans, and lower 2013 flood and capital cash requirements, due to re-profiling; less $0.6 billion from the increased deficit, the change to non-cash pension provision expense, and to more cash being retained by funds and agencies. Further information on the Contingency Account is provided on page 9.

FISCAL PLAN SUMMARY

(millions of dollars)

Income Statement

	Fiscal Year			Change from Budget
	2014-15 Actual	2015-16 Budget	Forecast	
Revenue				
Income tax revenue	16,838	16,792	**16,257**	(535)
Other tax revenue	4,598	5,307	**5,338**	31
Non-renewable resource revenue	8,948	2,768	**2,474**	(294)
Other revenue	19,097	18,921	**19,059**	138
Total Revenue	**49,481**	**43,788**	**43,128**	**(660)**
Expense				
Operating expense	42,047	43,209	**43,244**	35
Disaster assistance (with operating 2013 flood support)	351	829	**647**	(182)
Capital grants (including 2013 flood support)	2,466	1,975	**1,862**	(113)
Amortization / inventory consumption / disposal losses	3,184	3,083	**3,082**	(1)
General debt servicing costs	370	326	**327**	1
Capital Plan debt servicing costs	352	452	**452**	-
Pension provisions	(404)	31	**(171)**	(202)
Total Expense	**48,366**	**49,906**	**49,443**	**(463)**
Surplus / (Deficit)	**1,115**	**(6,118)**	**(6,315)**	**(197)**

Capital Plan

Capital grants	2,477	2,082	**1,945**	(137)
Capital investment	3,414	4,761	**4,027**	(734)
Capital Plan without SUCH	**5,891**	**6,843**	**5,972**	**(871)**
SUCH sector adjustment / self-financed investment	290	1,020	**943**	(77)
Total Capital Plan	**6,181**	**7,863**	**6,915**	**(948)**
Crown debt to GDP (as per *Fiscal Planning and Transparency Act*)	**3.5%**	**5.7%**	**5.7%**	

Balance Sheet

	At March 31			Change from 2015
	2015 Actual	2016 Budget	Forecast	
Financial Assets				
Heritage Fund and endowment funds	18,874	19,197	19,290	416
Contingency Account	6,529	3,289	3,869	(2,660)
Self-supporting lending organizations	19,152	20,081	20,017	865
Other financial assets	12,188	12,150	11,522	(666)
SUCH sector financial assets	9,334	8,779	8,848	(486)
Total Financial Assets	**66,077**	**63,496**	**63,546**	**(2,531)**
Liabilities				
Crown debt:				
Liabilities for capital projects	11,922	17,995	17,995	6,073
Debt for pre-1992 Teachers' Pension Plan	943	944	944	1
Self-supporting lending organizations	17,302	17,977	17,856	554
Other liabilities	6,424	6,970	6,702	278
Pension liabilities	11,196	11,227	11,025	(171)
SUCH sector liabilities	5,236	4,991	5,002	(234)
Total Liabilities	**53,023**	**60,104**	**59,524**	**6,501**
Net Financial Assets	**13,054**	**3,392**	**4,022**	**(9,032)**
Capital assets	44,753	48,386	47,544	2,791
Spent deferred capital contributions	(2,556)	(2,645)	(2,630)	(74)
Net Assets	**55,251**	**49,133**	**48,936**	**(6,315)**
Change in Net Assets (before adjustments)	**1,115**	**(6,118)**	**(6,315)**	

REVENUE

(millions of dollars)

	Fiscal Year			Change from Budget
	2014-15 Actual	2015-16 Budget	2015-16 Forecast	
Income Taxes				
Personal income tax	11,042	12,047	**11,285**	(762)
Corporate income tax	5,796	4,745	**4,972**	227
	16,838	**16,792**	**16,257**	**(535)**
Other Taxes				
Education property tax	2,102	2,253	**2,253**	-
Tobacco tax	896	1,041	**1,059**	18
Fuel tax	944	1,434	**1,465**	31
Insurance taxes	393	407	**407**	-
Freehold mineral rights tax	172	87	**74**	(13)
Tourism levy	91	85	**80**	(5)
	4,598	**5,307**	**5,338**	**31**
Non-Renewable Resource Revenue				
Bitumen royalty	5,049	1,547	**1,144**	(403)
Crude oil royalty	2,245	536	**610**	74
Natural gas and by-products royalty	989	343	**341**	(2)
Bonuses and sales of Crown leases	476	181	**210**	29
Rentals and fees / coal royalty	188	160	**169**	9
	8,948	**2,768**	**2,474**	**(294)**
Transfers from Government of Canada				
Canada Health Transfer	3,601	3,967	**4,005**	38
Canada Social Transfer	1,452	1,513	**1,516**	3
Direct transfers to SUCH sector	321	484	**484**	
Agriculture support programs	288	313	**272**	(41)
Infrastructure support	341	289	**289**	-
Labour market agreements	174	177	**180**	3
Other (includes 2013 flood assistance / Fiscal Stabilization)	(195)	241	**510**	269
	5,982	**6,984**	**7,256**	**272**
Investment Income				
Alberta Heritage Savings Trust Fund	1,825	1,719	**1,643**	(76)
Endowment funds	354	355	**372**	17
Alberta Capital Finance Authority	288	196	**192**	(4)
Contingency Account	116	108	**108**	-
Agriculture Financial Services Corporation	132	133	**132**	(1)
Other (includes SUCH income)	398	309	**321**	12
	3,113	**2,820**	**2,768**	**(52)**
Net Income from Government Business Enterprises				
AGLC - Gaming / lottery	1,526	1,545	**1,545**	-
AGLC - Liquor	767	851	**854**	3
Alberta Treasury Branches	325	283	**208**	(75)
Other - CUDGCo / APMC	47	57	**57**	-
	2,665	**2,736**	**2,664**	**(72)**
Premiums, Fees and Licences				
Post-secondary institution tuition fees	1,116	1,138	**1,138**	-
Health / school board fees and charges	672	669	**671**	2
Motor vehicle licences	516	525	**526**	1
Crop, hail and livestock insurance premiums	307	314	**300**	(14)
Energy industry levies	292	306	**306**	-
Land titles	91	90	**80**	(10)
Other (includes land and grazing, health benefits premiums)	570	645	**607**	(38)
	3,564	**3,687**	**3,628**	**(59)**
Other				
SUCH sector sales, rentals and services	850	903	**906**	3
SUCH sector fundraising, donations and services	667	564	**561**	(3)
AIMCo investment management charges	264	257	**301**	44
Fines and penalties	146	260	**256**	(4)
Refunds of expense	1,106	141	**156**	15
Climate change and emissions management	77	91	**92**	1
Miscellaneous	663	478	**471**	(7)
	3,773	**2,694**	**2,743**	**49**
Total Revenue	**49,481**	**43,788**	**43,128**	**(660)**

OPERATING EXPENSE BY MINISTRY

(millions of dollars)

	Fiscal Year			Change from
	2014-15	2015-16		
	Actual	Budget	Forecast	Budget
Advanced Education	4,966	5,257	**5,201**	(56)
Agriculture and Forestry	1,049	1,072	**1,013**	(59)
Culture and Tourism	288	295	**295**	-
Economic Development and Trade	231	316	**269**	(47)
Education	7,250	7,251	**7,302**	51
Energy	645	681	**609**	(72)
Environment and Parks	397	405	**409**	4
Executive Council	23	25	**25**	-
Health	17,814	18,297	**18,444**	147
Human Services	4,087	4,274	**4,283**	9
Indigenous Relations	182	186	**186**	-
Infrastructure	501	491	**491**	-
Justice and Solicitor General	1,313	1,343	**1,351**	8
Labour	126	164	**165**	1
Municipal Affairs	237	285	**283**	(2)
Seniors and Housing	573	569	**569**	-
Service Alberta	226	250	**252**	2
Status of Women	-	1	**1**	-
Transportation	523	484	**484**	-
Treasury Board and Finance	1,493	1,412	**1,460**	48
Legislative Assembly	122	150	**150**	-
Total Operating Expense	**42,047**	**43,209**	**43,244**	**35**

DISASTER / EMERGENCY ASSISTANCE EXPENSE

(millions of dollars)

	Fiscal Year			Change from
	2014-15	2015-16		
	Actual	Budget	Forecast	Budget
Agriculture and Forestry	170	725	**580**	(145)
Municipal Affairs	32	-	**9**	9
Unallocated	-	-	**-**	-
Total	**202**	**725**	**589**	**(136)**
2013 Alberta flood assistance:				
Culture and Tourism	5	6	**2**	(4)
Education	3	7	**-**	(7)
Environment and Parks	23	23	**23**	-
Health	32	-	**-**	-
Human Services	4	1	**-**	(1)
Infrastructure	53	44	**10**	(34)
Indigenous Relations	6	7	**7**	-
Municipal Affairs	21	16	**16**	-
Other (Transportation / Agriculture and Forestry / Economic Development and Trade)	2	-	**-**	-
Total 2013 Alberta flood assistance	**149**	**104**	**58**	**(46)**
Total Disaster / Emergency Assistance	**351**	**829**	**647**	**(182)**

INVENTORY CONSUMPTION EXPENSE

(millions of dollars)

	Fiscal Year			Change from
	2014-15	2015-16		
	Actual	Budget	Forecast	Budget
Health	795	750	**750**	-
Infrastructure	18	3	**3**	-
Service Alberta	14	15	**15**	-
Transportation	52	50	**50**	-
Other (Agric. and Forestry / Cult. and Tour. / Human Serv. / Seniors and Housing)	3	4	**7**	3
Total Inventory Consumption Expense	**882**	**821**	**824**	**3**

CAPITAL AMORTIZATION EXPENSE

	Fiscal Year			Change from
	2014-15	2015-16		
	Actual	Budget	Forecast	Budget
Advanced Education	481	487	487	-
Agriculture and Forestry	26	29	29	-
Culture and Tourism	3	3	3	-
Economic Development and Trade	5	5	5	-
Education	306	317	317	-
Energy	21	20	20	-
Environment and Parks	43	44	44	-
Health	653	637	638	1
Human Services	11	11	11	-
Infrastructure	93	107	107	-
Justice and Solicitor General	15	17	17	-
Labour	2	2	2	-
Municipal Affairs	2	3	3	-
Seniors and Housing	32	32	32	-
Service Alberta	41	42	42	-
Transportation	458	480	478	(2)
Treasury Board and Finance	17	21	18	(3)
Legislative Assembly	3	3	3	-
Total Amortization Expense	**2,211**	**2,261**	**2,257**	**(4)**

DEBT SERVICING COSTS

(millions of dollars)

	Fiscal Year			Change from
	2014-15	2015-16		
	Actual	Budget	Forecast	Budget
General				
Advanced Education - post-secondary institutions	41	39	41	2
Agriculture and Forestry - Agriculture Financial Services Corporation	70	75	70	(5)
Education - school boards	10	10	10	-
Health - Alberta Health Services	16	16	16	-
Seniors and Housing - Alberta Social Housing Corporation	10	8	8	-
Treasury Board and Finance - Alberta Capital Finance Authority / other	223	178	182	4
Total general debt servicing costs	**370**	**326**	**327**	**1**
Capital Plan				
Education - Alberta Schools Alternative Procurement P3s	30	30	30	-
Transportation - ring road P3	72	71	71	-
Treasury Board and Finance - direct borrowing	250	351	351	-
Total Capital Plan debt servicing costs	**352**	**452**	**452**	**-**
Total Debt Servicing Costs	**722**	**778**	**779**	**1**

INVENTORY ACQUISITION

(millions of dollars)

	Fiscal Year			Change from
	2014-15	2015-16		
	Actual	Budget	Forecast	Budget
Health	799	757	752	(5)
Infrastructure	44	48	48	-
Service Alberta	14	15	15	-
Transportation	50	50	50	-
Other (Agriculture and Forestry / Human Services)	4	3	3	-
Total Inventory Acquisition	**911**	**873**	**868**	**(5)**

CONTINGENCY ACCOUNT

(millions of dollars)

	Fiscal Year			Change from
	2014-15 Actual	2015-16 Budget	2015-16 Forecast	Budget
Balance at Start of Year	**4,658**	**6,529**	**6,529**	-
Surplus / (Deficit)	1,115	(6,118)	**(6,315)**	(197)
Cash Adjustments (negative = cash requirement; positive = cash source)				
SUCH sector revenue / expense adjustments	623	491	**661**	170
Pension provisions	(404)	31	**(171)**	(202)
Net deferred capital contribution cash adjustment	101	89	**74**	(15)
Retained income of funds and agencies:				
Alberta Heritage Fund	(210)	(165)	**(209)**	(44)
Alberta Treasury Branches	(325)	(283)	**(208)**	75
Agriculture Financial Services Corporation	(247)	44	**(103)**	(147)
Endowment funds	(163)	(180)	**(192)**	(12)
Alberta Social Housing Corporation	36	79	**31**	(48)
Alberta Capital Finance Authority	(58)	(75)	**(66)**	9
Other	(81)	(59)	**(125)**	(66)
Energy royalties (difference between accrued revenue & cash)	1,369	354	**554**	200
Student loans	(239)	(367)	**(329)**	38
Other cash adjustments	278	(477)	**22**	499
2013 Alberta flood assistance revenue / expense	(745)	(429)	**(144)**	285
Inventory acquisition	(172)	(180)	**(175)**	5
Inventory consumption (non-cash expense)	141	129	**132**	3
Capital Plan (excluding SUCH sector) cash sources / (requirements):				
Capital investment	(3,414)	(4,762)	**(4,027)**	735
Amortization / book value of disposals (non-cash expense)	855	847	**848**	1
Withdrawal from / (deposit to) Capital Plan financing account	673	-	**(713)**	(713)
Direct borrowing for the Capital Plan	3,021	5,958	**5,958**	-
Alternative financing (P3s - public-private partnerships)	199	143	**148**	5
Current principal repayments (P3s)	(39)	(42)	**(42)**	-
Surplus / (Deficit) plus net cash adjustments	**2,314**	**(4,972)**	**(4,391)**	**580**
Cash from prior-year final results	1,287	1,731	**1,731**	
Cash to be transferred next year	(1,731)	-	-	
Balance at End of Year	**6,529**	**3,289**	**3,869**	**580**

2015–16 FINANCING REQUIREMENTS[a]

(millions of dollars)

	First 9 months of 2015-16			Fiscal Year			Change from
	Estimate	Actual	Change	2014-15 Actual	2015-16 Budget	2015-16 Forecast	Budget
Financing Requirements / Completed to Date							
Direct borrowing for capital purposes	4,469	4,556	88	3,021	5,958	**5,958**	-
Re-financing of maturing debt	-	-	-	905	-	-	-
Term debt borrowing for provincial corporations:[b]							
Agriculture Financial Services Corporation	266	183	(83)	125	355	**355**	-
Alberta Capital Finance Authority	1,389	1,415	26	1,231	1,852	**1,852**	-
Alberta Petroleum Marketing Commission	255	-	(255)	227	340	**340**	-
Alberta Treasury Branches	788	300	(488)	500	1,050	**1,050**	-
Total Financing Requirements / Completed to Date	**7,166**	**6,454**	**(712)**	**6,009**	**9,555**	**9,555**	-

[a] Since December 31 2015, additional debt has been issued for capital purposes of Cdn$702 million.

[b] Gross borrowing requirements for provincial corporations. Include amounts of maturing debt being re-financed.

Capital Plan Highlights

2015-16 Capital Plan spending is forecast to be $6.9 billion, a decrease of $948 million from the October Budget. Decreases mainly reflect re-profiling of a variety of projects, including those related to schools, carbon capture and storage, health facilities and highways. In addition, most of the budgeted climate change grants have been held back, in order to incorporate the funds with the Climate Leadership Plan.

Direct borrowing for the Capital Plan remains at $6 billion. With the lower 2015-16 Capital Plan spending, an estimated $713 million in borrowed funds will be available for use in future years. Cash received for capital purposes and from retained income have decreased $168 million primarily related to the Climate Leadership Plan, delays in the Fort McMurray land exchange and reduced spending of Alberta Social Housing Corporation cash. Forecast spending self-financed by the SUCH sector has decreased by $77 million.

CAPITAL PLAN SUMMARY

(millions of dollars)

	Fiscal Year			Change from
	2014-15	2015-16		
Summary	Actual	Budget	Forecast	Budget
Capital Plan Spending	**6,181**	**7,863**	**6,915**	**(948)**
Capital Plan Financing				
Cash received for capital purposes	483	575	**444**	(131)
Retained income of funds and agencies	138	167	**130**	(37)
Book value of capital asset disposals	41	-	**5**	5
Alternative financing (P3s)	199	143	**148**	5
Direct borrowing	3,021	5,958	**5,958**	-
Capital Plan financing account withdrawal / (deposit)	673	-	**(713)**	(713)
Transfer from Contingency Account	1,335	-	-	-
SUCH sector self-financed	291	1,020	**943**	(77)
Total Capital Plan Financing	**6,181**	**7,863**	**6,915**	**(948)**
By Ministry				
Advanced Education	773	876	**876**	-
Agriculture and Forestry	60	53	**53**	-
Culture and Tourism	48	41	**41**	-
Economic Development and Trade	5	5	**5**	-
Education	358	1,333	**1,047**	(286)
Energy	79	305	**175**	(130)
Environment and Parks	46	103	**44**	(59)
Health	664	917	**753**	(164)
Human Services	5	7	**7**	-
Indigenous Relations	11	11	**11**	-
Infrastructure	233	445	**267**	(178)
Justice and Solicitor General	96	70	**60**	(10)
Labour	1	1	**4**	3
Municipal Affairs	1,869	1,118	**1,121**	3
Seniors and Housing	103	178	**180**	2
Service Alberta	39	46	**45**	(1)
Transportation	1,633	2,025	**1,913**	(112)
Treasury Board and Finance	30	33	**28**	(5)
Legislative Assembly	-	2	**2**	-
2013 Alberta flood assistance				
Culture and Tourism	1	-	-	-
Education	5	10	**10**	-
Environment and Parks	57	173	**173**	-
Health	-	-	**5**	5
Infrastructure	1	11	**6**	(5)
Municipal Affairs	25	14	**14**	-
Seniors and Housing	4	1	**1**	-
Transportation	35	85	**76**	(9)
Total Capital Plan	**6,181**	**7,863**	**6,915**	**(948)**

Fiscal Plan Summary

(For the nine months ended December 31, 2015)

INCOME STATEMENT

(millions of dollars)

	First 9 months of 2015-16		Change from
	Estimate	Actual	Estimate
Revenue			
Personal income tax revenue	8,936	8,538	(398)
Corporate income tax revenue	3,646	3,800	154
Other tax revenue	3,926	3,781	(145)
Resource revenue - bitumen royalties	1,160	1,121	(39)
Resource revenue - crude oil royalties	402	575	173
Resource revenue - other	513	689	176
Transfers from Government of Canada	5,181	5,255	74
Investment income	2,117	2,001	(116)
Net income from commercial operations	2,052	2,071	19
Premiums, fees and licences	2,504	2,602	98
Other revenue	2,055	2,239	183
Total Revenue	**32,493**	**32,672**	**179**
Program Expense by Ministry			
Advanced Education	4,296	4,103	(193)
Agriculture and Forestry	1,526	1,390	(136)
Culture and Tourism	225	222	(3)
Economic Development and Trade	225	192	(33)
Education	5,588	5,670	82
Energy	700	567	(133)
Environment and Parks	431	387	(44)
Executive Council	19	19	-
Health	14,763	14,939	176
Human Services	3,175	3,160	(15)
Indigenous Relations	153	125	(28)
Infrastructure	476	457	(19)
Justice and Solicitor General	1,065	1,046	(19)
Labour	131	98	(33)
Municipal Affairs	1,300	1,302	2
Seniors and Housing	451	451	-
Service Alberta	230	196	(34)
Status of Women	1	1	-
Transportation	918	755	(163)
Treasury Board and Finance	1,074	1,110	36
Legislative Assembly	97	97	-
Total Program Expense	**36,844**	**36,287**	**(557)**
Debt servicing costs	584	563	(21)
Pension provisions	-	-	-
Total Expense	**37,428**	**36,850**	**(578)**
Surplus / (deficit)	**(4,936)**	**(4,178)**	**757**

CAPITAL PLAN

(millions of dollars)

	First 9 months of 2015-16		Change from
	Estimate	Actual	Estimate
Capital Grants	**1,634**	**1,414**	**(220)**
Capital Investment	**4,331**	**3,536**	**(795)**
Total Capital Plan	**5,964**	**4,950**	**(1,014)**

ECONOMIC OUTLOOK

A dimmer outlook for the Alberta economy

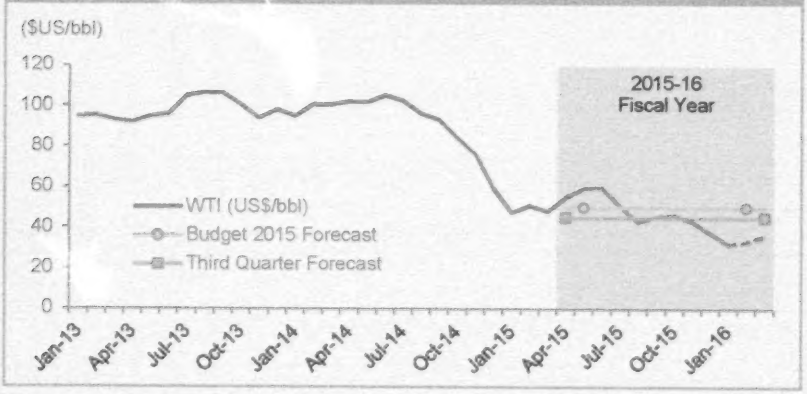
Economic conditions and the outlook for oil prices have weakened since *Budget 2015* was released. Oil prices continued their downward trend and fell to the lowest level in over a decade at the beginning of 2016. Tempered expectations about global growth and rising oil supplies are weighing on equity and commodity markets and increasing volatility.

The steep decline in oil prices means that the downturn in Alberta's economy will be deeper and longer than forecast at *Budget*. Following an estimated decline in real GDP of 1.5% in 2015, Alberta's economy is expected to contract again in 2016 by 1.1%. Weaker economic conditions continue to weigh on incomes, including wages and salaries, corporate profits, and Government of Alberta revenue. Nominal GDP declined by over 11% in 2015, and is forecast to fall again by about 4% in 2016.

With additional cuts to capital spending by oil and gas companies, the slowdown in the energy sector is feeding through other sectors in the economy. Momentum that supported activity in the province in 2015 has faded, prompting a pullback in non-energy construction and spending. Households will feel the effects, as employment and average weekly earnings are expected to decline in 2016.

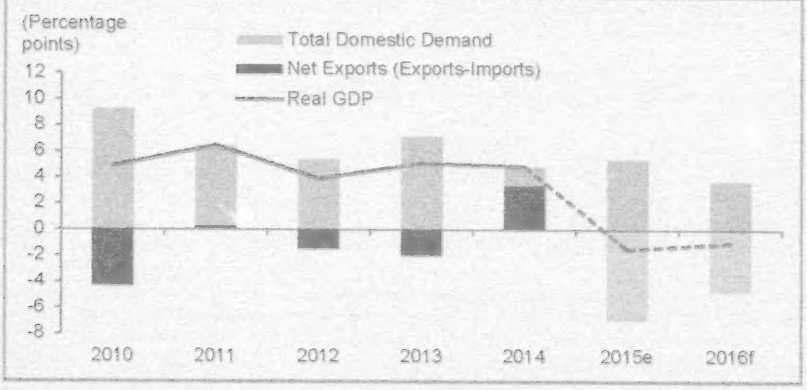
Though the outlook for 2016 has deteriorated, there are some factors that remain supportive of growth. Oil sands output will continue to expand, driving exports. As costs moderate, a lower Canadian dollar will support non-energy exports and boost revenue. Increased public capital spending will help offset some of the declines in private sector investment.

Figure 1. WTI Price Forecast for 2015-16



Source: Alberta Energy

Figure 2. Alberta Real GDP Growth by Component



Sources: Statistics Canada and Alberta Treasury Board and Finance

Alberta Business Sector

Oil prices searching for a bottom

Following the release of *Budget 2015* in late October, the price of WTI fell over 30% to below US$30 per barrel. Demand growth has been outpaced by rising production from OPEC and non-OPEC sources, and global inventories of crude oil have swelled. This has postponed an eventual recovery in prices and weakened market sentiment. Reflecting the worsening outlook, the oil price forecast for 2015-16 has been lowered to US$45 per barrel, from US$50 per barrel at *Budget* (Figure 1).

The light-heavy (WTI-WCS) differential has been relatively steady and is expected to average US$13.50 per barrel in 2015-16, slightly lower than at *Budget*. With the decline in WTI, though, WCS prices have fallen sharply. The Alberta heavy oil benchmark fell below US$20 per barrel in January 2016 to the lowest level since trading began in 2004. These prices have hurt producers' netbacks and squeezed corporate profits, not only for oil and gas companies, but for those supplying the industry as well. Net corporate operating surplus, a measure of corporate profits, is expected to decline around 17% in 2016.

ECONOMIC OUTLOOK

Canadian dollar tumbles

Since *Budget 2015* was released, the Canadian dollar has lost over 5 cents against the US dollar. In January, it fell to the lowest level in twelve years. A combination of US dollar strength, weak commodity prices, and a weaker outlook for the Canadian economy have been responsible for the decline. Reflecting this weakness, the dollar is expected to average 72.5US¢/Cdn$ in the last quarter of the fiscal year. The exchange rate forecast for 2015/16 has been lowered by two cents to 76.0US¢/Cdn$. A weaker dollar bolsters exports and resource revenue.

Energy investment to decline again

Oil and gas investment is expected to contract by over 20% in 2016, sharper than the 4.2% decline expected at *Budget*. The continued slump in oil prices has caused energy companies to cut spending further. Conventional oil and gas investment has slowed considerably, with the number of rigs drilling falling to multi-decade lows. Spending in the oil sands will be limited to maintenance of existing facilities and the completion of projects that were under construction prior to the price decline. Firms will continue to seek ways of cutting costs by bargaining aggressively with suppliers and containing labour costs. Some consolidation within the industry is likely, as firms with healthy balance sheets acquire those under financial stress.

Public spending boosts construction

Non-residential building construction was bolstered by strong momentum heading into 2015 and a large increase in institutional and governmental construction. However, the pace of declines in the industrial and commercial sectors accelerated through 2015. Although public spending will continue to provide a boost in 2016, non-energy investment is expected to fall. This reflects lower activity in the province and the winding down of current projects. Construction activity will get some support from easing cost pressures, as non-residential building construction price indices have fallen across most sectors.

Positive trade gains

Exports will continue to provide a lift to the Alberta economy, despite the plunge in oil prices and lower investment. New oil sands projects ramping up in 2015 led to strong gains in crude production. Gains will continue as major oil sands projects under construction come on-line. Exports from other industries including agriculture, food manufacturing, and services are also expected to expand, partially offsetting the declines in energy-related manufacturing. Overall, export-oriented industries will benefit from easing cost pressures, the lower Canadian dollar, and a solid US economy.

In addition, the lower level of activity in the province has led to a pullback in imports. International imports fell by almost 9% in 2015 and are forecast to decline further in 2016. Rising exports and declining imports are improving Alberta's trade balance, which adds to real GDP growth (Figure 2).

Household Sector

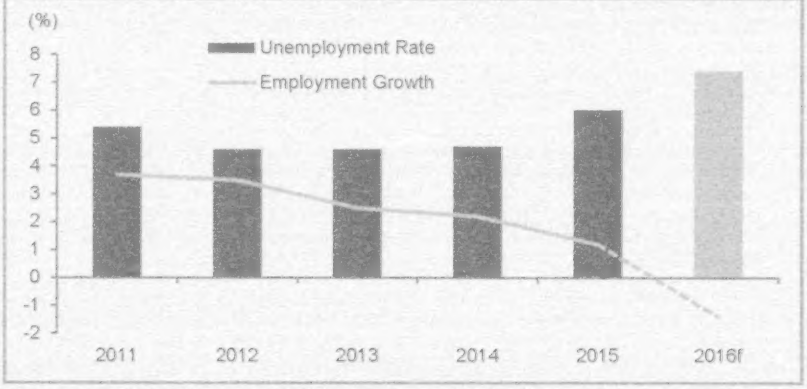
Employment expected to decline

Employment remained resilient for much of 2015, even as the unemployment rate was rising as more people searched for work. Although annual employment grew by 1.2%, job losses started to accumulate in the fourth quarter. The weak start to 2016 and the worsening outlook for oil prices and economic activity suggest employment will fall further in 2016, with the largest declines in the first half of the year. Annual employment is forecast to decline 1.5%, compared with the 0.5% growth forecast at *Budget*. The unemployment rate is expected to remain elevated, averaging 7.4% in 2016 (Figure 3).

Labour earnings slump

Businesses responded to the economic slowdown by trimming labour costs in 2015, including reducing hours and employment, especially in the high-paying goods sector (which includes oil and gas, manufacturing, and construction). This resulted in average weekly earnings (AWE) declining by an estimated 0.4% in 2015, much weaker than the *Budget* forecast of 0.7% growth. As the labour market continues to soften in 2016, AWE is forecast to fall an additional 0.8%. Combined with declines in employment and weaker investment income, primary household income is expected to decline by 1.0% in 2016.

Figure 3. Labour Market Indicators



Sources: Statistics Canada and Alberta Treasury Board and Finance

Population growth moderates

Alberta's population growth is expected to moderate to 1.2% in 2016, dragged down by declining net interprovincial migration (Figure 4). Net interprovincial migration slowed dramatically in the third quarter of 2015. In 2016, weakening economic conditions in the province are forecast to spur the net outflow of around 6,000 people to other parts of Canada. This would be the first decline since 2010. Net international migration will continue to support population growth, but record levels of immigration will be tempered by continued outflows of non-permanent residents. As overall migration levels fall, most of the expected population growth in 2016 will be due to natural increase.

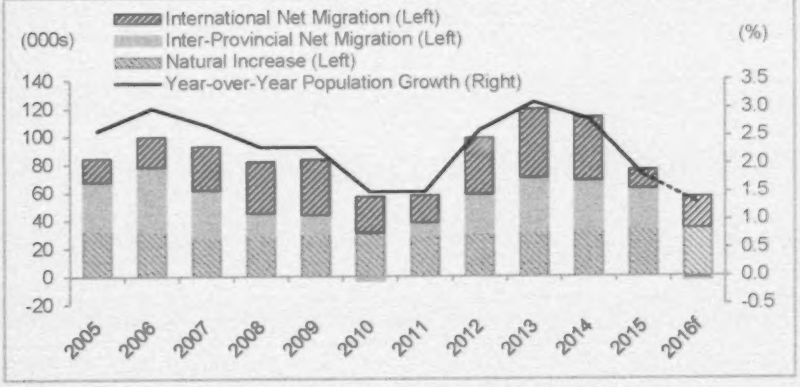
Housing momentum fades

Alberta's housing market held up relatively well in 2015, despite a sharp decline in resale activity. Low inventories and strong momentum from 2014 boosted housing starts, particularly for multi-unit construction. This strength faded in the second half of 2015 as the labour market softened and consumer confidence waned. Starts fell to 23,500 (annualized) in January 2016. With weaker momentum and slowing population growth, housing starts are expected to fall to 22,300 in 2016.

Consumers rein in spending

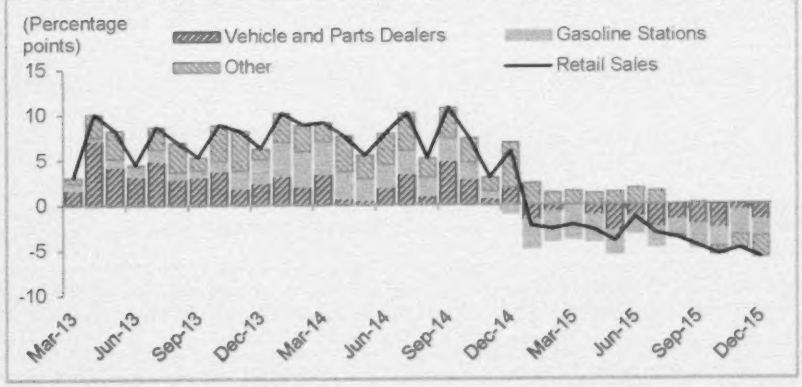
Falling earnings and economic uncertainty weighed on household spending in 2015. Retail sales declined in most major categories, and the pace of the declines picked up through the year (Figure 5). Consumers postponed large purchases, with sales from motor vehicle dealers falling over 6%. By the end of the year, the pullback in spending broadened beyond more discretionary purchases. With labour conditions expected to weaken further in 2016, household consumption is forecast to fall 0.5%. Consumer price inflation is expected to rise to 1.6% in 2016, boosted by a lower dollar, which increases the cost of imported goods.

Figure 4. Alberta Population and Growth Rate



Source: Statistics Canada and Alberta Treasury Board and Finance

Figure 5. Year-over-year Retail Sales Growth by Category



Sources: Statistics Canada

External Risks

While the US economy appears on solid footing, the outlook for several other countries, including China, has softened. The moderating outlook for oil prices has also subdued near-term growth expectations for the Canadian economy. Hightened uncertainty about global economic growth and Alberta's high reliance on trade and commodities subject the outlook to a number of external risks:

- There has been increased volatility in financial markets partly due to uncertainty about global growth and emerging markets. This may limit the recovery in commodity prices, hurting Alberta's growth prospects.
- Despite the pullback in investment, global oil production has continued to outperform expectations. If production continues to exceed expecations, for example from Iran, prices will remain lower for longer. A prolonged period of low oil prices would further weaken Alberta's outlook.
- Larger-than-expected outflows of interprovincial migrants poses downside risk to housing and consumer-related activity.
- On the upside, oil prices and Alberta's growth outlook could be lifted by an acceleration in the decline of non-OPEC oil production (for example US shale) or fiscal stress on OPEC countries, leading to lower production quotas.

Key Energy and Economic Assumptions

Fiscal Year Assumptions	2015–16 9 Month Actual	2015–16 Fiscal Year Forecast	
		Budget 2015	3rd Quarter
Prices			
Crude Oil Prices[a]			
WTI (US$/bbl)	48.85	50.00	45.00
Light-Heavy Differential (US$/bbl)	13.2	13.60	13.40
WCS @ Hardisty (Cdn$/bbl)	45.71	46.50	41.60
Natural Gas Price[a]			
Alberta Reference Price (Cdn$/GJ)	2.35	2.60	2.30
Production			
Conventional crude oil (000s barrels/day)	n/a	560	529
Raw bitumen (000s barrels/day)	n/a	2,473	2,403
Natural gas (billions of cubic feet/day)	n/a	13.1	13.3
Interest rates			
3-month Canada treasury bills (%)	0.48	0.50	0.49
10-year Canada bonds (%)	1.55	1.65	1.53
Exchange Rate (US¢/Cdn$)[a]	77.6	78.0	76.0

[a] Forecasts have been rounded.

Calendar Year Assumptions	2015 Estimates		2016 Forecast	
	Budget 2015	3rd Quarter	Budget 2015	3rd Quarter
Gross Domestic Product				
Nominal (billions of dollars)	332.4	332.4	345.5	319.3
% change	-9.4[b]	-11.5[b]	4.0	-3.9
Real (billions of 2007 dollars)	313.1	315.3	315.9	311.7
% change	-1.0	-1.5	0.9	-1.1
Other Indicators				
Employment (thousands)	2,297	2,302	2,310	2,267
% change	1.0	1.2	0.5	-1.5
Unemployment rate (%)	5.8	6.0	6.2	7.4
Average Weekly Earnings (% change)	0.7	-0.4	1.6	-0.8
Primary Household Income (% change)	2.5	0.2	2.8	-1.0
Net Corporate Operating Surplus (% change)	-54.8	-51.9	17.4	-17.2
Housing starts (thousands of units)	36.1	37.5	28.8	22.3
Alberta Consumer Price Index (% change)	0.9	1.1	1.7	1.6
Population (July 1st, thousands)	4,196	4,196	4,255	4,247
% change	1.8	1.8	1.4	1.2

[b] The difference in the growth rate (% change) is due to a revision to 2014 nominal GDP after the release of 2014 provincial economic accounts data by Statistics Canada in November 2015.

Alberta